NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE **Contact: Mitchel Benson**
December 16, 2003 **(916) 653-4052**

CALIFORNIA TREASURER ANGELIDES, OTHER CALPERS LEADERS, ANNOUNCE CLASS-ACTION LAWSUIT ALLEGING FRAUD BY NEW YORK STOCK EXCHANGE AND SEVEN SPECIALIST TRADING FIRMS

Lawsuit Comes Three Months To the Day After Treasurer Angelides, Joined by Heads of CalPERS and CalSTRS, Launched Nationwide Call for the Resignation of Then-NYSE Chair Richard Grasso and for Sweeping Reforms at the NYSE

SACRAMENTO, CA – California State Treasurer Phil Angelides and other leaders of the nation's largest public pension fund – the California Public Employees' Retirement System (CalPERS) – announced today that CalPERS had filed a class action lawsuit in federal court in New York against the New York Stock Exchange (NYSE) and seven specialist trading firms, alleging that during the past five years the exchange and those trading specialists "pursued a fraudulent scheme" to bilk investors out of at least $150 million in losses by shortchanging them in trillions of dollars worth of trades.

CalPERS is seeking lead plaintiff status to recover losses to investors, and is also seeking reforms of the NYSE and its use of trading specialists that would preclude these fraudulent practices from occurring in the future.

"The latest allegations concerning the NYSE, outlined in recent public reports of a scathing, wide-ranging federal investigation, demonstrate the failure of the self-regulatory model that the NYSE currently follows," Angelides said at a news conference at CalPERS headquarters to announce the filing of the lawsuit. "This is more proof that the exchange has operated as an elitist, private club for the benefit of its members and management, and with utter disregard for the investors and pensioners who count on the exchange to be an open and honest marketplace."

On September 16, Angelides, joined by CalPERS President Sean Harrigan and Jack Ehnes, Chief Executive Officer of the California State Teachers' Retirement System (CalSTRS), called on Richard Grasso, the then-embattled chairman of the NYSE, to resign, saying at the time that the recent disclosure of his approximately $188 million compensation package had "shocked the investing public and set back critical efforts to restore the public's faith in our financial system." Mr. Grasso resigned the next day.

Angelides and other top state investment and pension leaders from across the country also called for sweeping reforms at the NYSE, to restore its moral authority and credibility. Among the reforms pushed by Angelides and others was a genuine firewall to provide for true separation of

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the regulatory and business functions of the Exchange, to assure that regulatory and enforcement actions would be pursued without conflict or reservation.

Today's lawsuit alleges that the specialist trading firms engaged in a wide range of manipulative self-dealing, and deceptive and misleading conduct, by fraudulently "stepping in the way" of matching the orders of public buyers and sellers to profit, to the detriment of common shareholders. The lawsuit alleges that the specialist traders' transactions were riddled with abusive, inappropriate practices known by such terms as "front-running" and "trading ahead" – according to recent press accounts of a wide-ranging investigation of the NYSE by the U.S. Securities and Exchange Commission.

Furthermore, the lawsuit alleges, officials of the NYSE were aware of the common and pervasive fraudulent activities, but allowed them to continue and flourish – even hiding their failure to oversee the traders' performance properly – because by doing so it increased the value and enhanced the reputation of the exchange because the exchange makes money off all trades.

Former NYSE Chairman Grasso and other top NYSE officers benefited financially, the lawsuit alleges, by ignoring the specialists' illicit behavior, getting ever-increasing compensation packages. Indeed, during the time of the allegedly fraudulent behavior, specialists controlled many of the seats on the NYSE.

Angelides and the other CalPERS officials said they were filing the suit on behalf of CalPERS and its 1.4 million members – representing assets of $157 billion – because the trading specialists and the exchange have financially harmed public investors who rely on the Exchange to provide an honest and fair market.

"The health of the exchange and the markets depends on investor confidence," Angelides said. "When that confidence is shattered, when the exchange has violated that sacred public trust, then investors no longer view the exchange as a fair and honest marketplace for trades."

More than any other exchange, the NYSE relies on humans today to oversee trillions of dollars in investor trading each year on its floor. In a system that dates back to the 1890s, specialists match buyers and sellers of stock, sometimes providing capital from their firm's account to complete a trade and keep the markets orderly. As specialists have increasingly turned to trading for their own accounts as a source of profits, more attention has been focused on the question of whether they are using their inside knowledge of the market to profit personally at the expense of their clients.

In addition to the NYSE, the seven other defendants named in the lawsuit are:

- LaBranche & Co., Inc., LaBranche & Co., LLC and Michael LaBranche
- Bear Wagner Specialists LLC
- Spear, Leeds & Kellogg Specialists LLC and the Goldman Sachs Group, Inc.
- Van der Moolen Specialists USA, LLC and Van der Moolen Holding NV
- FleetBoston Financial Corp. and Fleet Specialist, Inc.
- Performance Specialists Group LLC
- Susquehanna Specialists, Inc. and Susquehanna International Group Inc.